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Required Report - public distribution

Date: 12/31/2013

GAIN Report Number:

Turkey

Food Service - Hotel Restaurant Institutional

2013 HRI Report

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Report Highlights:

The Turkish economy weathered the global financial crisis better than most and is expected to finish 2013 with a growth rate of 3.5-4.0 percent. Turkey's hotel, restaurant and institutional (HRI) sector has benefited from a decade of sustained economic growth, rising income levels, and a young population that is hungry for new products and tastes. Turkey's position as the 6th most popular tourist destination in the world also contributes to this sector's growth.

Post:

Ankara

Executive Summary:

The Turkish economy weathered the global financial crisis better than most and is expected to finish 2013 with a growth rate of 3.5-4.0 percent.

The United Nations World Tourism Organization ranks Turkey as the 6th most popular destination in the world, and the 4th in Europe. Tourism revenues increased from US\$22.5 billion in 2010 to US\$29 billion in 2012, and Turkey hopes 2013 will exceed US\$30 billion. In 2012, 78percent of tourism revenues were generated from foreign tourists and 22 percent were generated from Turkish citizens living abroad.

Turkey hopes to attract 50 million visitors and generate US\$50 billion in tourism revenues by the year 2023. Turkey's tourism profile is diversifying from sea-sun-sand (mass) tourism and embracing specialty areas such as cruises, health, culture and religious tourism. Hotel and restaurant and institutional (HRI) growth is supported by the increase in GDP and Turkey's young population. An urban and young population drives change in consumer behavior such as eating out more. This attracts high-end fast food chains to enter the market.

Proliferation of the shopping malls and online ordering also help growth of the sector. Turkey is the 7th largest retail market in Europe, having 372 shopping malls as of 2013 that generate 60 billion TL in revenues.

Institutional food sector is growing by penetrating the military and schools. The number of catering facilities increased rapidly and reached around 5,000.

Author Defined: Table of Contents

Section I. Market Summary

- A. Turkish Economy
- B. Demographics
- C. HRI Sector
- D. SWOT Analysis of the Market

Section II. Roadmap for Market Entry

- A. Entry Strategy
- B. Market Structure
- C. Sub-Sector Profiles
 - a. Hotels and Resorts
 - b. Restaurants
 - c. Institutional Food Sector
 - d. Shopping Malls
 - e. Online Ordering

Section III. Competition

Section IV. Best Product Prospects

Section V. Post Contact and Further Information

Section I. MARKET SUMMARY

A. Turkish Economy

Having a population of over 75 million, Turkey is an important emerging market and is the 17th largest economy in the world. Turkish GDP increased from US\$680 billion in 2008 to US\$799 billion 2012. Following the global crisis in 2008 and 2009 Turkey saw a 8.9 percent growth rate in 2010. The Turkish economy accomplished a soft landing, reducing its growth rate from 7.5 percent in 2011 to 3.2 percent in 2012. A 4 percent growth is projected in 2014. Economists expect the recent political developments to have a negative impact on the 2014 growth.

The biggest challenge facing the Turkish economy right now is its current account deficit, currently 7.4 percent of GDP. Turkey's growth has been fueled with public investments and private consumption and, since Turkey imports a large amount of its energy (almost 85 percent) this makes the economy to vulnerable to external shocks. In 2013, Turkish Lira depreciated almost 20 percent with the U.S. tapering concerns and political issues (as of December 2013, US\$1 is equal to just over 2 Turkish Lira).

The government is now trying to increase domestic savings (which is currently around 12 percent) through various measures like curbing the expenditures through bringing limits on the credit card payments in installments, and also trying to attract gold savings into the system. Turkey's inflation

rate has been sustained at single digit numbers over the last decade, and has dropped from 9.3 percent in 2004 to 6.4 percent in 2010. The 2013 inflation is expected to be at 7.2 percent, while the GOT targets 5.3-percent inflation for 2014.

Another action taken by the government has been to limit the number of installments on purchases. For instance, food item purchases cannot be paid in installments.

Turkey's agricultural sector revenues increased from US\$24 billion 10 years ago to US\$62 billion in 2012. This accounts for 8 percent of the 2012 GDP. An estimated 25 percent of the Turkish population is working in the agriculture sector and Turkey has the 7th largest agriculture sector in the world; greater than Spain, Italy and France. In this respect, Turkey is Europe's leader in terms of agriculture revenues. Turkish agriculture exports increased more than 4 times from US \$3.7 billion in 2002 to US \$16 billion in 2012. In the first 9 months of 2013, agriculture exports increased 10 percent compared to the same period in 2012 and reached US\$13.5 billion. Currently more than 6 thousand Turkish companies are exporting to 205 destinations around the world.

B. Demographics

Turkey's population exceeded 75 million at the end of 2012; 50.2 percent of the population is male and 49.8 percent is female. About 77 percent of the population lives in city centers and suburbs, and 23 percent lives in villages and rural areas. More than 18 percent of the nation's population lives in Istanbul.

Turkey has a young and dynamic population compared to other European countries, but in recent years, the population growth rate is slowing. Birth rates are decreasing due to factors such as modern life styles, increased employment of women, and economic constraints. Therefore the median age increased from 29.7 in 2011 to 30.1 in 2012. Roughly 67 percent of the population is between the ages of 15 to 65, which is regarded as the working age group.



C. HRI Sector

In 2012, more than 36 million tourists visited Turkey, generating US\$29 billion in revenue for the tourism sector. This is nearly a 300 percent increase compared to the beginning of the decade. In the first 9 months of 2013, despite the Gezi Park protests around the country in the beginning of summer season, 31 million tourists came to Turkey, generating a revenue of US\$24.5 billion, which is a 13.4 percent increase compared to the same period last year.

Between 2007 and 2013, the annual average number of foreign visitors increased by 8.2 percent; tourism revenues on the other hand has increased by 7.9 percent and reached US\$29.4 billion. As a result, Turkey is the 6th most visited country in the world. According to the 5 year development plan target, Turkey is to reach 48.3 million tourists and US\$932 consumption per person in the year 2018.

Tourism revenues constitute almost 20 percent of Turkey's total exports. Foreign tourists spend an average of US\$667, whereas Turkish citizens living abroad spend US\$1000 dollars during their visits to Turkey.

Turkey expects 33 million visitors by the end of 2013. In the first 7 months of 2013, 19.1 million foreign visitors entered Turkey, and more than half of these were European visitors. Compared to the same period last year, the number of visitors increased 3.73 percent. According to the Ministry of Culture and Tourism, in the first quarter of the year, there has been an 18.47 percent increase in the number of foreign visitors compared to the same period of last year.

European Consumers Choice Organization selected Istanbul as Europe's best destination in 2013. Antalya, located on the Mediterranean Coast of Turkey, is the tourism capital of the country. 60 percent of the visitors that come to Turkey enter the country from Istanbul and Antalya. 51 percent of 5 star hotels are located in Antalya and 13 percent in Istanbul.

The Turkish food and beverage sector is a US\$280 billion market. There are 35,631 companies operating in the food and beverage sector in Turkey as of 2012. Turkish food and beverage imports increased 5 times from US\$1 billion in 2001 to US\$5 billion in 2012. Export revenues in the food and beverage industry increased from \$8.9 billion in 2011 to US\$9.5 billion in 2012, where Iraq was the largest export market at 27.5 percent, Germany second at 8.7 percent, the UK third at 3.7 percent and the U.S. became the fifth largest at 3.2 percent. Turkey's imports, on the other hand, increased from \$4.9 billion in 2011 to \$5.1 billion in 2012. In 2012 the Russian Federation was the largest supplier to Turkey's food and beverage industry at 16.5 percent.

Ukraine was the second at 8 percent, Germany 7.6 percent and the US was fifth at 6.1 percent. The increase in the number of working women in society, the increase in income levels, and a more hectic lifestyle caused by urbanization have led to a change in consumption patterns and eating habits, which reflect positively on the HRI sector. Accordingly, the number of hotels, restaurants and catering companies are increasing each year along with the increase in tourism. There are currently more than 3,800 hotels, 5,000 catering companies and 150,000 restaurants in Turkey. The sector expects a 15 percent growth rate for the year 2013.

One of the biggest challenges facing the HRI sector is the extreme taxation of alcoholic beverages. Currently, more than 60 percent of the price of an alcoholic drink is tax. The government is trying to limit the consumption of alcoholic beverages through these taxes, as well as by passing new regulations

that limit the sales of alcohol in restaurants and in stores. The new restrictions on the sale of alcohol were a noted contributor to the public up-rise in May 2013, which also took place in the international media as the Gezi Park protests.

D. SWOT analysis of the market

Provided below are the strengths, weaknesses, opportunity and threats (SWOT) analysis for U.S. food products in the Turkish market.

<p>STRENGTHS</p> <ul style="list-style-type: none"> • U.S. products are considered high quality in the minds of consumers. • There is an increase in the number of American fast food and restaurant chains • Turkey has a young and consumption driven population. • Some U.S. products are better priced than those offered by the competition • Turkish economy was not hit as hard by the 2009 crisis and a 4 percent growth rate is projected for 2013. • Young Turkish population is receptive to new tastes and western products. • Rising GDP leads to increased interest in foreign cuisine. 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Shipments from the U.S. take longer and some items may need longer shelf life or extra preservation measures (like refrigerated containers) which increase costs. • Turkey is not a well-known market to U.S. exporters. • Customs Union that Turkey signed with the European Union provides advantages (like no customs tax) for European exporters. • Proximity of other countries provides many competitors a price advantage. • There is a well-developed local food sector providing most of the needed items • Unregistered economy accounts for 32 percent of the food sector.
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Turkey can serve as a secure and established port for exports to neighboring Middle East countries. • There is still unutilized potential in certain tourism segments (like religion tourism, adventure tourism). • There is a lack of consistent supply in certain niche markets such as high-end restaurant items (like sauces), sea food (like lobster, king crab, black cod, etc.) and cheese varieties. • With the rising trend of healthy 	<p>THREATS</p> <ul style="list-style-type: none"> • High level of taxation (42 percent) on alcoholic beverages. • Strengthening TL against other main currencies. • High import tariff rates prevent the import of many specialty ingredients and processed products. • Lengthy customs procedures and nontransparent regulations make it difficult to import food items (especially for high value items, sampling for analysis at customs creates obstacles). • Many SPS barriers block imports of high value products.

nutrition, consumers are looking for healthy food alternatives, but there are not many product varieties available in the market.	<ul style="list-style-type: none"> Non-science based regulatory decisions impair US imports vastly.
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Section II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

Since import procedures are extensive and complex, HRI entities do not engage in direct importation. Specialized import companies generally import food products. Therefore, the best approach for new-to-market exporters is to contact importers and distributors first through specialized institutions such as TUGIDER (Association of Food Importers) and DEIK (Foreign Economic Relations Board) that are involved in international trade servicing. TUGIDER has 184 members, the majority of which are food importing companies. This organization can be contacted by phone at (+90-212) 347 2560, or by Fax at (+90-212) 347- 2570, or via their website at <http://www.tugider.org.tr/eng/index.htm>. DEIK is a government organization that assists Turkish businesses engaging in international trade. DEIK can be contact by phone at (+90-212) 339 5000, by fax at (+90-212) 270 3092, or via their website at <http://www.turkey-now.org/>.

The Inward Processing Regime (DIR) allows importers to benefit from low customs duties and tax exemptions provided that they process the imported raw material and export the end-product subsequently. This makes Turkey an attractive hub for transshipments to other Middle East and Central Asia countries.

Trade Shows

A good way of getting to know the market and meeting potential buyers is to visit trade shows. Turkey holds a number of large-scale trade shows that attract visitors and participants from all around the world as well as from Turkey. The biggest of these trade shows is the Emmitt (East Mediterranean International Tourism and Travel Fair) to be held on January 30 - February 2, 2014 in Istanbul (at Tuyap Exhibition Centre) where HRI representatives from all over Turkey participate. It attracts a total of 106,850 visitors and hosts 3,500 international participants from 60 countries (<http://www.emittistanbul.com/Default.aspx>). Please also find below a list of trade shows featuring food and beverages which are closely followed by the HRI sector.

Date	2014 Major Food Trade Shows in Turkey	Location
30 Jan-2 Feb	Emmitt: 18 th East Mediterranean Intl Tourism & Travel Exhibition http://emittistanbul.com/en/	Istanbul Tuyap
19-22 Feb	Anfas Food Product : 19 th International Food Trade Show http://www.anfasfoodproduct.com/index.php/en	Antalya
13-16 Feb	Food Show: 7 th Food and Beverage Trade Show http://www.foodistfuari.com/	Istanbul Tuyap
24-26 Apr	Fi Istanbul: Food Ingredients http://www.foodingredientsglobal.com/en/istanbul/home	Istanbul Lutfu K.
05-08	Travel Turkey Izmir: 8 th International Tourism Trade Show and	Izmir

Dec	Conference http://www.travelturkey-expo.com/	
09-12 Oct	Worldfood: 22 nd International Food & Beverage, Food Ingredients and Food Processing Trade Show http://www.ite-turkey.com/ver3/fairs/gida_en/	Istanbul IFM
27-29 Nov	Sirha: 2nd International Food, Gastronomy, Hotel and Catering Services Tradeshow http://sirha-istanbul.com/en/	Istanbul IKM

B. Market Structure

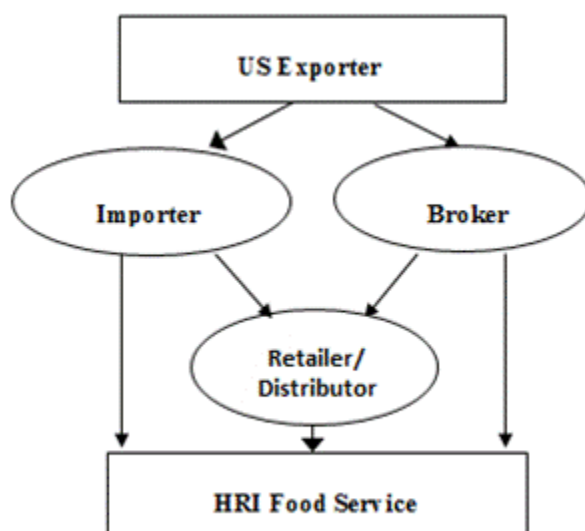
The general process of importing food products into Turkey can be separated into two: the import of food products derived from plants, and those derived from animals. Food products derived from plants require an import application (provided through an online portal). Bulk products derived from plants require the provision of an ingredient list. Packaged foods require the provision of an ingredient list and the food label.

Food products that contain ingredients derived from animals require a Control Certificate prior to export. In addition to the documents provided for plant derived products, the importer of animal derived products must also provide an onerous list of supplementary documents that include a sample veterinary health certificate, and other product and business-related documents.

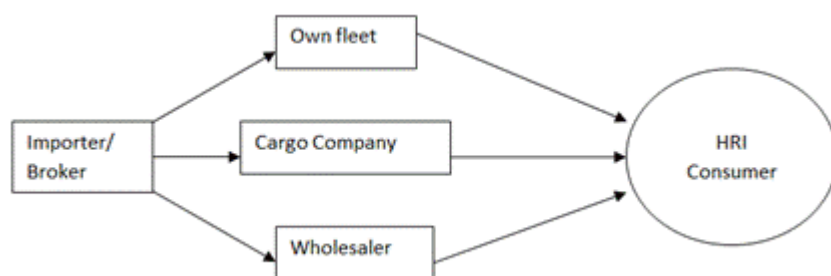
Upon arrival in Turkey an officer from the Ministry of Food, Agriculture and Livestock (MINFAL) inspects the shipment and takes samples to be sent to the laboratory for analysis. This analysis period usually takes 1 week and after confirming that the analysis results comply with the import application and the current regulations, MINFAL provides a Certificate of Conformity. After this, the customs officer inspects the products and the goods can be cleared from customs.

The expenses involved throughout this process are the warehouse charges (in order to minimize the waiting period the import application should be submitted in advance), customs duty, import tax, and the Agricultural Contribution Tax for some products (calculated based on the protein and milk content).

The following chart illustrates how the distribution network operates for HRI food service purchasers.



Importers used by HRI companies also act as distributors with their own fleet, but also making use of cargo delivery companies to supply food products to large supermarkets. Please also find a chart below of how the imported food items are distributed within Turkey.



C. Sub-Sector Profiles

a. Hotels and Resorts

The tourism industry has been one of the most important drivers behind Turkey's economic development over recent decades by reducing unemployment, raising national GDP and improving the country's balance of payments. The tourism sector is covering 25 percent of the country's trade deficit and has a target to reach 50 million tourists and generate US\$50 billion in revenue by the year 2023 (the centenary of the Turkish Republic's establishment).

Turkey has always been a popular destination with its natural and historic resources. In recent years, however, the tourism sector is differentiating from the all-inclusive mentality of mass tourism (serving

mainly sea-sun-sand tourists) and developing in eco-tourism and health tourism. The Ministry of Health formed a Health Tourism Department in 2011. As a result of the efforts of this Department, foreign patients coming to Turkey have increased steadily over the last four years. Providing cutting edge medical service with the latest techniques, public and private hospitals saw a 3 fold increase in the number of patients from 74 thousand in 2008 to 156 thousand in 2011. In 2012, 250 thousand patients from 107 countries came to Turkey for treatment.

Turkey is among the top 10 destinations for health tourism in the world. Patients are coming mainly for eye surgery, hair implants, plastic surgery, ear-nose-throat, orthopedics, lower back and neck hernia treatments, gynecological and urological operations.

The Ministry of Health is targeting to attract 500,000 foreign patients in 2015 to generate US\$7 billion and 2 million foreign patients in 2023 to generate US\$20 billion.

Istanbul has become an attractive destination for international chain hotels in the last decade. In 2010 it was elected the Culture Capital of the World, and hosted 10 million visitors in 2013. Istanbul has become a very popular wedding destination in recent years, and also serves as the center of conference tourism. In the last two years 38 new hotels were built in Istanbul alone, including world brands like Wyndham.

However, tourism investments are no longer limited to the shores and major cities, but have spread to Anatolia. Currently there are over 3,800 establishments with a tourism license in Turkey, and 2,885 of these are hotels with a bed capacity of over 710,000. You can find a list of these hotels by clicking on the excel sheet from the link <http://www.kultur.gov.tr/TR/belge/1-90582/turizm-isletmesi-belgeli-turizm-tesisleri-bilgileri-yay-.html> on the website of the Ministry of Culture and Tourism.

The below table shows the change in the number of hotels according to their types in the last year:

	2012	2013	% Change
5 star hotels	375	413	10
4 star hotels	578	602	4
3 star hotels	719	747	3.8
2 star hotels	523	468	-10
1 star hotels	62	55	-11
Holiday village	84	79	-6
Thermal Hotels	43	54	25
Boutique Hotels	51	61	19.6
Apart Hotels	105	99	-5.7

As it can be observed from the statistics, the trend observed in the last five years towards an increase in the number of 3-4 star hotels seems to have slowed down in 2013, leaving way to an increase in 5-star and boutique hotels, as well as health tourism. In recent years, Turkey has become a very popular destination for health tourism due to the high number of qualified health care professionals and the availability of cutting edge medical devices in modern hospitals at affordable prices.

In 2012 and 2013 new chain hotels came to Turkey such as Marriott-Edition, Shangri-La and Wyndham.

Another rising star of the Turkish tourism sector in recent years has been cruise lines. Cruise ships boarding Turkey has increased from 887 in 2003 to 1,517 in 2012. During the same period, tourists visiting by these ships increased from half a million to 3 million. This increase trend in cruise lines has also continued in 2013 and in the first 9 months of 2013, the number of passengers increased 5.5 percent compared to the same period of 2012, and reached 1.7 million. The top 5 ports carry more than 90 percent of all visitors; Istanbul being the major point of destination, followed by the ports at Kusadasi, Izmir, Antalya and Marmaris.

Top 10 Chain & Group Hotels in Turkey			
	Number of Beds	Number of Hotels	Local/International
Joy Hotels	20,336	16	Local
TUI Travel Hotels (TTH)	20,098	18	International
Dedeman Hotels & Resorts	9,743	22	Local
Crystal Hotels Resorts & Spa	13,380	11	Local
WoW	8,826	7	Local
Pegasos Hotels	8,568	7	Local
Rixos Hotels	12,150	15	Local
Hilton International	11,858	25	International
InterContinental Group	6,189	16	Local
Accor Hotel Turkey	4,841	12	International

(Local groups listed above have hotels in other countries as well, but these figures cover only their facilities in Turkey.)

b. Restaurants

Food consumption outside of the home is increasing in Turkey and is currently a US\$16 billion market. In 7-8 years, it is expected that the per-capita income will increase to US\$20 thousand and sector revenues will reach US\$30 billion annually. This is very attractive for foreign fast food chains.

International fast food restaurants have existed in Turkey for more than 20 years over which time they have registered an average of 10 percent growth per year, and have attracted foreign fast food chains to invest in Turkey. Istanbul has the most fast food restaurants throughout Turkey with 45 percent, followed by Ankara, Izmir and Bursa. The largest international fast-food chains operating in Turkey, and the number of stores they have, are provided in the below table.

Top 12 Fast Food Restaurant Company Profiles

Company /	Number of	Number of	Nationality &	Purchasing
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Restaurant Name	Restaurants in 2010	Restaurants in 2013	Type of Food	Agent
Burger King	335	500	UK – Burgers	Direct
Simit Sarayi	150	287	Turkish – Bagels	Direct
McDonald's	140	200	US – Burgers	Direct
Starbucks	137	201	US – Coffee	Direct, Wholesaler
Domino's	161	375	US – Pizza	Broker
Tatlises Cigkofte	15	350	Turkish – Steak tartar (a la turca)	Direct, Wholesaler
Sbarro	66	90	US – Pizza	Direct
Popeye's	65	90	US – Chicken	Direct / Broker
Little Caesars Pizza	32	83	US – Pizza	Broker
Kentucky Fried Chicken	50	74	US – Chicken	Direct
Kahve Dunyasi	61	89 Stores + 18 Corner & Metro Station Shops	Turkish – Coffee & Chocolate	Direct / Broker
Pizza Hut	41	41	US – Pizza	Broker

As the above table demonstrates, U.S. fast food franchises are dominant in Turkey. Although Turkey's fast food consumption is climbing fast, it still lags behind European levels and this potential is encouraging not only new players to enter the market but also existing businesses to expand their operations.

All fast food companies use local production due to difficulties importing produce. Burger King primarily sources food items locally, importing only paper products directly from the UK. McDonald's not only prefers to work with local food manufacturers but it also produces its own beef to ensure quality and price competitiveness.

Traditional Turkish restaurants specializing in fast food service also continue to emerge. These restaurants serve traditional 'lahmacun', 'pide', kebabs and other Turkish dishes, but in a new fast food style.

In 2013 we observed a new trend where chains that target a higher-income segment are also entering the market. For instance PF Chang's, Jamie Oliver and Tom's Kitchen entered the market by opening restaurants in Istanbul. These foreign chains prefer to enter the market themselves rather than to offering a master franchise.

In Turkish culture eating is a form of socialization that brings together family or friends. Lately, Turkish eating habits are changing towards eating out, largely due to factors such as the increase in per capita income and the increase in the number of working women. In 2002, when per capita income was around US\$3,500, people ate out once a month. Now per capita income has increased to US\$15,200 and people eat out at least 3 times a month. Annual expenditures per person have increased to 55 Euros according to the data of Turkish Statistics Institute. In anticipation of per capita income increasing to US\$20,000, the sector is expecting 100 percent growth in 8 years, reaching US \$30 billion.

The same potential exists for high-end coffee shops as well. Although Turkish people are primarily tea drinkers, younger Turks have quickly embraced the new coffee culture after Starbucks entered the market, and other similar coffee shops began to emerge soon after. Specialty and flavored coffee is spreading at a high pace and this trend is being promoted both by international coffee chains and their Turkish competitors.

More than half of the revenue made in all restaurants in Turkey is made in Istanbul where there are approximately 17,000 restaurants. 10,000 of these restaurants serve alcoholic beverages, 90 percent of which serve Turkish cuisine and the remaining 10 percent serve foreign cuisines; most of which are Italian or French. In restaurants, food items generate 85 percent of the revenues and beverages generate 15 percent.

Lately, the rising popularity of Asian cuisine seems to have shaken the long reign of Italian cuisine. With this trend, the variety of imported items is shifting as well. The most popular food items currently imported are summarized in the below table.

Items most imported	Imported mainly from
Lobster	Maine, USA
Black cod	Maine, USA
King crab	Alaska
Salmon and salmon caviar	Norway
Sauces (like Unagi, Soy and Yuzu)	EU
Wines and Hard liquors	EU and USA (California)

c. Institutional Food Sector

In the late 1970s and early 1980s, institutional food service providers began emerging in Turkey to provide food service to factories, schools, hospitals, private companies and public sector organizations. The institutional food service sector has developed rapidly since then, sometimes with the help of foreign joint ventures. It is now a US\$7 billion market compared to US\$2.25 billion in 2004, accounting for over 30 percent of the overall HRI sector. The size of the institutional food service market will continue to expand as the military has begun to contract an increasing number of catering services at its premises.

The number of catering companies increased rapidly in the past decade due to the public and private sector outsourcing of the food services. The number of catering facilities, which used to be around 300 in the 1970s, increased 20 times and reached around 5,000, employing 400,000 people, and providing meals to about 7 million people daily, half of which live in Istanbul.

The sector is now aiming to improve quality standards. Out of the 5,000 catering companies, there are currently 3,800 that are registered with the Ministry of Food Agriculture and Livestock (MINFAL), and the four largest companies in the sector; Sofra, Sardunya, Obasan and BTA are listed among the top 1,000 industry companies announced by the Istanbul Chamber of Industry.

The sector is targeting to reach a market size of US\$22 billion by the year 2023. In order to achieve this target, The Turkish Federation of Catering Associations (YESIDEF) is conducting various projects to increase sales to schools and the military. One of these projects is the “Feeding the New Generation” project which hopes to serve 17 million students and 555 thousand teachers in 69 thousand schools.

Bringing forth the health aspect, sector representatives state that Turks spend US\$30 billion each year on health expenses related to obesity, heart diseases and diabetes, and that healthy food can be served in schools for only 20 percent of that amount (for US\$6 billion).

By expanding services provided to the military, the catering sector aims to create a market of 3 billion TL. Currently 110 thousand soldiers are served in 43 units around the country and the sector is trying to increase this number to 650 thousand soldiers.

The sector is growing 10 percent annually and is composed mostly of small-to-medium-sized private enterprises with mostly local customers. Larger foreign catering companies such as Sodexho of France, Compass of England, and Kluh of Germany are also in the market.

The growth and institutionalization of the food sector in Turkey also created an investment area for the education sector. The increasing demand for professional kitchen staff led private institutions to take initiative in developing cooking schools, which has reached US \$9.7 million.

Following the usual pattern, the institutional food service industry also spread from Istanbul to other industrialized cities such as Ankara, Izmir, Adana, Bursa and Eskisehir. The main food inputs of this sector are meat, grains, fruits and vegetables. The use of imported food items is mostly limited to bulk commodity agricultural products such as rice, pulses and vegetable oils. Companies that do not cater food in their premises offer meal vouchers that can be used at nearby restaurants.

d. Shopping Malls

The history of shopping malls dates back almost 550 years with the world famous Grand Bazaar, which is still a major shopping destination in Istanbul today. The number of modern shopping malls in Turkey today has increased 6 times in the last decade and reached 372 in 2013, generating 60 billion TL (US\$30 billion) in revenues. Modern shopping malls (that are over 5 thousand square meters and have at least 15 shops) currently offer 900 thousand square meters of rental area, attracting 1.6 billion visitors. Based on these figures, Turkey is the 7th largest retail market in Europe (larger than Greece, Czech Republic and Portugal markets combined) and the 10th in the world.

While the food courts in the shopping malls usually attract both domestic and foreign fast food restaurants, recently built higher-end malls also include full service restaurants of both local and foreign cuisines.

e. Online Food Ordering

With the spread of internet use, online food ordering has also become more common in Turkey. All large fast food restaurants have online ordering systems, but the market is currently dominated by www.yemeksepeti.com (meaning “food basket”) which handles 99 percent of all online orders. Cashing in on the advantage of being the first in the market, the web site today has over 700,000 registered users and receives 20,000 orders per day, linking consumers with 3,500 restaurants in 44 cities. In 2012 the company received a US\$44 million investment from General Atlantic, which is among the 10 largest investment funds in the world.

Section III. COMPETITION

The latest developments effecting the HRI sector and U.S. exporters in 2013 are summarized below.

BIOSAFETY REGULATION

Turkey banned the import of all genetically engineered (GE) crops and products containing GE ingredients with the implementation of the Biosafety Law on September 26, 2010. Currently no GE crops can be grown in Turkey and no GE products for human consumption can be imported.

Although certain corn and soy genes are allowed for feed purposes, Turkey has no threshold for the low level presence (LLP) of unapproved GE traits in food or feed products. The detection of LLP has led to the rejection of some shipments. Exporters can find detailed information on the Law as well as other food import regulations on the FAS GAIN web site:

<http://gain.fas.usda.gov/Pages/Default.aspx>.

LIVESTOCK AND MEAT

Livestock producers were affected gravely from the combination of high feed prices and low milk prices in the last decade, and eventually there has been an unstoppable increase in the price of red meat in Turkey. In 2010, in order to halt the steep increase in meat prices, the government decreased the customs tax rate and started to import red meat for the first time. Meanwhile, attractive incentives were provided for the husbandry sector, which attracted investors from all sectors.

Despite the measures taken, red meat prices still remain high.

The situation in Turkey is expected to increase the demand for U.S. genetics, live dairy and fattening cattle, sheep, and goats. Turkey and the United States are negotiating a protocol for slaughter cattle, and are updating a protocol for breeding cattle. In 2013, Turkey and the United States finalized a fattening cattle protocol, and a breeding sheep and goat protocol.

ORGANIC FOOD

Certificated organic agriculture started in Turkey in 1984 with the demand coming from Europe.

Turkey has the potential to benefit from demands for organic agriculture as a result of a good climate, ecology, soil, water conditions coupled with a rich variety of plants and products on her flora. Turkey is the most suitable country in Europe for organic agriculture, having the lowest average amount of chemicals used per unit area. This amount is 3.6 kg in England, 4.4 kg in Germany, 7.6 kg in Italy, 17.5 kg in Holland and only 0.5 kg in Turkey.

Turkey exports organic dried fruits, pulses and spices which are grown mainly in the Aegean Region. The sector is growing every year, and the land and number of farmers growing organic items are increasing. However, local consumption remains around 10 percent due to higher prices (organic items are 10-50 percent more expensive than conventional agriculture commodities), and 85 percent of the production is exported.

The organic food sector in Turkey grew 12 percent in 2012. Domestic retail market size of organic products is US\$ 120 million and export volume is over US\$130 million. Together, total size of the organic food sector is US\$250 million. Most demanded organic products in the domestic market are fresh fruits and vegetables, followed by red and white meat. Local demand for organic foods is increasing, but there are not many varieties of organic processed products in the market. One of the

challenges facing imported organic products is the requirement for analysis at customs which leads to additional costs, which are then reflected in prices. Since domestically produced organic products are not cheap either, there is market potential for imported organic food, if they are competitively priced.

SECTION IV. BEST PRODUCT PROSPECTS

Functional Food: Despite its developed agriculture production, processed food varieties limited to confectionary items in Turkey. As the consumers become more health conscious they demand more gluten-free, dairy-free or organic products and there are so very few items in these categories in the market, and the ones available are very expensive. There is certainly an opportunity for the US exporters to fill this gap in the Turkish market.

Wine: The popularity of wine as an alcoholic beverage is increasing and local consumption has doubled during the last four years to reach approximately 1 liter per year per person. Currently 75 million liters of wine is produced in Turkey and another 1 million liter is imported and Turkish consumers are more and more willing to try new varieties. A wine culture is also developing in Turkey and the number of educational courses & events about wine varieties and manufacturing is increasing. French and Californian wines are held in high esteem compared to imports from Eastern Europe, Spain, South America, and Italy. Unfortunately, taxes and fees on all alcohol are high in Turkey.

Whiskey: Single malt scotch is rarely found in the Turkish market, as blended scotch is the whisky of choice. Since whisky is viewed as an expensive and charismatic drink, it is popular among the young population as well as the middle-aged and older consumers with established taste preferences. Having realized this, two American bourbon brands in the market, Jack Daniels and Jim Beam, are targeting the younger generation through rock concerts and motor-rally sponsorships. Other popular brands sold in Turkey are Johnny Walker and J&B. Changes in Turkish Laws introduced in January 2011, however, may prevent advertising of alcohol in certain venues aimed at young consumers.

Beer: Having had no other alternatives but local brands in the market for over 2 decades, Turkish consumers feel like they are fed up with it and are more and more willing to try new brands and alternatives. Pubs and restaurants offering foreign (mostly Belgian) beer varieties differentiate themselves from the competition with these brands and they quickly become popular among customers and this opens the door for premium US beer brands. Customers are willing to pay double the price of what they are paying for local beer in these restaurants.

Seafood: Turkey is a very promising market for a wide range of seafood products. Following the agreement on health certificates between Turkey and the United States, Turkish importers started importing high-end U.S. seafood products like lobsters, crabs, and scallops. There are market opportunities for various other seafoods as well, such as Atlantic Mackerel, wild salmon, Alaskan crab, cod fish, ikura, wasago, unagi, sirumi sticks, nori and wakame.

Dairy products: Specialty cheese varieties (like parmesan, edam, brie, gouda, Emmental, Roquefort, etc.) and butter from the United States have potential in the Turkish market, however imports from EU countries currently dominate the market due to customs tax exemptions and shorter delivery times.

Sauces and syrups: Various brands of sauces for salads, meat and international cuisines are popular in Turkey and form an important part of the HRI sector. In particular, the increasing popularity of Asian

cuisine is promoting demand for specialty herbs, sauces, and syrups. Fine dining restaurants mostly demand items such as Dijon mustard, tanakatsu, yuzu water, mitsukan, wasabi, balsamic vinegar, etc. in this respect. Most sauces are currently being imported from Germany, the UK, France, Asian countries and the United States.

Others: Food items used in sushi and in Chinese dishes are in high demanded lately with the growing popularity of East Asian cuisine. Products such as Peking duck, aji panca, aji amarillo, and Arborio rice are examples of items that are highly demanded but are scarce in the market.

The adoption of products popular in the West is a large part of modern Turkish life, so internationally known brand names are particularly well received. Exporters should be sensitive to brand positioning and be ready to invest in research and marketing to help their importing partners have a successful entry into the market.

SECTION V. POST CONTACT AND FURTHER INFORMATION

For more information on import regulations and other agricultural sector reports for Turkey and other countries around the world, please refer to the FAS website at:

<http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

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